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Texas Agricultural Extension Service

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# Agricultural Cooperatives' Self-Inflicted Wounds



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# AGRICULTURAL COOPERATIVES' SELF-INFLICTED WOUNDS

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Agricultural cooperatives are institutions created by men of vision to accomplish what one person could not do alone. Nearly all cooperatives in the United States today were organized after World War I. They were organized in the cradle of agribusiness, largely as an alternative to it. When cooperatives were formed, they took business away from existing business institutions and created more competition.

Competition is less intense today than it was in earlier years. Cooperatives now do a better job of competing with proprietary firms. Thus, proprietary firms are less likely to "take on" cooperatives than in the past. It is not competition from proprietary firms that causes agricultural cooperatives to struggle and to die. Rather, agricultural cooperatives fail because of wrong internal forces and decisions within cooperatives themselves, which we prefer to call self-inflicted wounds. Some call it internal decay.

These self-inflicted wounds are the result of decisions that cooperative members, but mainly cooperative boards of directors and managers, have made through the years. They represent the prevailing philosophy of cooperative operation resulting from decades of policy formulation. They originate from fears, selfishness and the lack of knowledge. As a result, cooperatives are more willing to compete among themselves than to compete with proprietary firms, which are always ready to fill the void left by a bankrupt cooperative. Perception of the original need for cooperatives has been obscured by time. Current cooperative members equate the worth of a cooperative in terms of what it does for them today rather than what it can do for them tomorrow. Cooperative loyalty is less evident in young members than in older members. Today's members view their cooperatives only as *an* alternative, not *the* alternative.

All of these developments have generated forces of internal decay, resulting in self-inflicted wounds. Not all cooperatives have the same number of wounds nor the same severity. Some cooperatives have only one or two

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wounds or none at all. Some carry so many wounds that life is in jeopardy even in the hands of the best surgeons. The wounds are not only in local cooperatives; some regional cooperatives carry them also. Some of the wounds stem from the loose relationship between locals and regionals. Mainly they stem from the lack of visionary leadership within the cooperative community.

What are some of the cooperatives' self-inflicted wounds? This report will identify them, explain how they have come about and discuss their impact.

## Wound: Separation of Ownership and Patronage

Increasingly, cooperatives are composed of two groups—owners and patrons. We estimate that 45 percent of the net worth of agricultural cooperatives is owned by deceased and retired members and those drawing away from farming or ranching. On top of that, about 20 percent of the net worth in the average Texas agricultural cooperative is held as unallocated reserves or permanent capital funds. Thus, the majority of equity capital of typical Texas cooperatives is not held by current patrons.

This is further confirmed by the fact that 31 percent of Texas agricultural cooperatives and 29 percent of U.S. cooperatives have never redeemed any equity capital during their lifetime.

This is creating an almost insurmountable conflict within cooperatives. Owners want to mandate redemption, and there is a growing movement to require equity redemption of long-term outstanding equity. Owners also want high dividend payments on their outstanding stock. There is a movement afoot in some states to amend the Cooperative Marketing Act to delete the provision, "That the association does not pay dividends on stock or membership capital in excess of 8 percent per annum." Once this provision is amended (that is, the ceiling on dividends is removed), then cooperatives are stuck with the requirement that no member of the association is allowed more than one vote. It is the one-man, one-vote provision that is driving larger farmers out of cooperatives. Cooperatives have greater potential for future growth by amending the one-man, one-vote provision rather than by removing the 8 percent per annum dividend limitation.

By removing the 8 percent dividend rate limit, ownership becomes more richly rewarded while patronage becomes less rewarded. If patronage is not rewarded, it is discouraged. And, if patronage drops off, the ability to reward ownership with higher dividends becomes less likely.

It is not acceptable at this time to amend state cooperative statutes and the Capper-Volstead Act by removing both the dividend ceiling and the one-man, one-vote provision.

## Wound: Permanent Capital

Permanent capital is a growing share of net worth. These are the unallocated reserves owned by the cooperative. We estimate that 20 percent of the net worth of Texas agricultural cooperatives is held as permanent capital or unallocated reserves. A 1980 survey indicated that 6 percent of the Texas cooperatives had 100 percent of net worth unallocated to members, and 57 percent of the cooperatives had some part of the equity capital unallocated. A more recent Texas survey indicated that 64 percent of the members approved the practice of unallocated reserves. They gave the following reasons for supporting their decision:

- It strengthens the cooperative's financial condition.
- The cooperative, then, is owned by the cooperative.
- The cooperative will be available to members in the future.
- There is no need to treat non-members and members the same.
- There is no need to redeem the unallocated reserves.

Thirty-six percent of the members disapproved of unallocated reserves. The reasons they gave are:

- The cooperative is organized by members for members.
- The earnings should be allocated to members on a patronage basis.
- The cooperative becomes owned by no one.
- The cooperative is not accountable to members with a permanent capital fund.

Traditional cooperative philosophy rejects the idea of capital being held in the name of the cooperative because it leads to the members' loss of control. It creates severe conflicts within the cooperative between the member equity and the cooperative equity. Who absorbs losses? Who gets gains? Who is the real owner? It also creates conflicts between the manager, the board of directors and the membership. As the percentage of permanent capital grows, there is likely to be a growing unresponsiveness either on the part of the board to the membership, or the manager to the membership or both. Permanent capital can also affect growth, future goals and operations of the cooperative.

Permanent capital funds also create doubt as to the accessibility of equity capital to members. There is a growing danger in members desiring to liquidate the business when permanent capital funds constitute a substantial portion of net worth. Under such circumstances, it is doubtful under present Internal Revenue Service (IRS) rules that members can rightfully claim or divide unallocated reserves.

## Wound: High Equity Leveraging

Recent financial statements of some cooperatives reveal that approximately 70 percent of their capital is borrowed. Approximately 30 percent represents equity ownership either by the cooperative or the members. The trend in proportion of owned capital over the past decade has been downward.

The danger in high leveraging of equity is that cooperatives become incapable of adopting new technology and services. Failure to adopt new technology when it is available increases cost per unit, limits how cooperatives serve members and, thereby, makes cooperatives non-competitive.

## Wound: Mediocre Management

Mediocre management is a highly controversial wound that no one wants to admit. While there are some outstanding managers, the overall quality of cooperative management is relatively low.

Progress has been made in improving cooperative management. The early tendency of hiring cooperative managers from among bankrupt farmers in the community has largely stopped. Also, there are increasing instances of hiring managers out of the non-cooperative sector; some are successful, some are not. By the same token, some proven cooperative managers have moved to proprietary firm jobs. But in spite of these changes, the quality of cooperative management remains relatively poor. Why?

1. Management of an agricultural cooperative is tougher than management of an equal size proprietary firm. A cooperative manager deals with numerous farmers and ranchers who are family- and community-oriented. The cooperative business is subject to strong seasonal cycles influenced by many vagaries of nature, government programs and policies. Under close scrutiny of a watchful public, the cooperative manager must deal with the customer and the owner in the same person, while he himself has no ownership stake in the business.

2. While selection of the manager is the function of the board of directors, most local boards, especially in the federated system, are ill prepared to carry out this function. For one thing, the hiring of a new Chief Executive Officer (CEO) is seldom done. The board is not trained to carry out the selection, nor do many boards seek assistance in management selection. Too often the hiring is based on availability rather than qualifications. An investigation of the candidate's background is not adequately made. Thus, mediocre managers shuffle from job to job. Boards of directors lack the sophistication to weed them out.

3. Too many cooperative CEO's are inadequately trained for the job. Cooperatives have not insisted on college graduates, nor screened candidates as closely as some other employers. Thus, the depth and breadth of preparatory training often is lacking, as is follow-up training by the cooperative. Most local boards of directors spend nothing on cooperative or management education. In the federated system, the local managers tend to have a loose, almost indifferent attitude toward regional management assistance.

4. In most local cooperatives, the general manager is solely responsible for all management. The cooperative cannot afford second and third level management. Thus, it is difficult, if not impossible, for a general manager to be away from the business very long without hurting the cooperative's operation. As the sole operational decision maker, most local managers are too busy to attend management training programs.

5. The evaluation of the manager's performance is left to a board of directors that does not understand what constitutes good management. The evaluation process used by the board is usually incomplete, most often addressing only one or two questions posed by the chairman. The process is not an in-depth, systematic evaluation that looks at the full scope of management and performance. It does not utilize outside expertise.

6. Most cooperatives do not have a written short- or long-range plan. Thus, much of management's time is spent solving problems rather than exercising responsibility for change. Management's role is to make things happen and to achieve the goals of the cooperative as defined by the board of directors. The famous educator Nicholas Murray Butler placed managers in three classes: "The few who make things happen, the many who watch things happen and the majority who have no idea what happened!" A good manager must have the ability to plan and look ahead. He must reduce the time spent on crisis management.

7. There is a tendency among cooperative boards to underpay management. This is true, in part, because board members compare managers' salaries with the wrong things—that is, their own earnings. Also, some boards tend to limit managers' salaries as a means of generating savings in the cooperative.

8. The supply of good cooperative managers is limited. The opportunity for young men and women to acquire management skills through experience alone is becoming less likely. Cooperative management requires mastery of more than 30 subject matter areas. Furthermore, only a few local cooperatives provide adequate management training. Management of agricultural cooperatives is complex and becoming more so.

In the future, candidates for cooperative managers will be selected from among the better college graduates and given further in-depth training so that they perform well on the job. Initially, regionals will have the responsibility for providing that training, even before managers get on-the-job training.

## Wound: Increasing Cooperative-to-Cooperative Competition

While our Texas agricultural cooperative members were not sure whether cooperatives were winning the cooperative-corporate battle, they were sure that competition among cooperatives was good for farmer-members. With the aging of American agricultural cooperatives, competition among cooperatives has intensified, especially in the federated system. Cooperatives are as intensely competitive today as at anytime in history. Perhaps the best example of this competition can be found in the state of Iowa.

Competition among cooperatives has discouraged cooperatives from merging where merger was called for. Also, cooperative competition has affected regional cooperatives. The formation of marketing-agencies-in-common to centralize the marketing function and thus improve the economic welfare of members has been discouraged. The splintering off of members from the disaster struck Farmers Export Company illustrates the point. Strong marketing-agencies-in-common are required for the survival of the American agricultural cooperative system.

We can build the cooperative system only if the members commit to the locals, the locals commit to the regionals and the regionals to the nationals. A Texas survey shows, however, that only 53 percent of the members felt that they have any obligation to patronize their cooperative. Only 5 percent of Texas cooperative members agree that local grain cooperatives should turn all members' grain over to regionals to sell.

What little loyalty exists within cooperatives is in the members' relationship with locals. Too little cooperative loyalty extends to the regional. This is probably one reason for the feeling that competition among cooperatives is good for the farmer member. Farmers don't visualize their cooperative as being a part of a business family or an integrated production-marketing system.

## Wound: Too Little Cooperative Education

A typical cooperative conducts no educational programs and expends no money for this purpose. A recent Texas survey showed that two out of three cooperatives did not conduct educational programs. Of those that did, half spent less than $2,000 for this purpose and half spent $2,000 or more. Those that did conduct educational programs held one educational meeting during the year, mostly for members. Subjects taught included improving members' production practices, telling the cooperative story and improving the staff's technical skills.

Only one-fourth of the Texas cooperatives reported providing training for new board members. Most of the training provided for managers and staff came from Farmland Industries and the annual Cooperative Managers/Directors Training school.

Members generally recognize a need for cooperative training and education. A Texas survey showed that 60 percent of the members approved the idea of an associate board. Members appointed or elected to an associate board sit with the regular board and enter into discussions, but do not vote. Training on an associate board helps newly elected board members understand their responsibilities, express producer needs and opinions in board discussions, and prepare for eventually taking over full membership on the board.

More communication and education by cooperatives are needed. The average cooperative member is capable of understanding facts about the cooperative. Facts should be communicated. The idea of competition is normal; the idea of cooperation is acquired. Once acquired, it has a tendency to rot very fast. To retain the idea of cooperation as a workable philosophy requires continuing education. Without cooperative education we lose the cooperative idea. Without the cooperative idea we lose cooperatives.

## Wound: Losing the Larger Farmers

Larger farmers are leaving cooperatives because of their attraction to integration (having their own gin or elevator) and their attraction to private suppliers, including manufacturers. The trend toward integration stems from the desire to reduce costs of farm supplies, increase returns from marketing or acquire market assurance. These are the very same objectives common to cooperatives.

The large farmers' shift towards private suppliers stems from the cooperative's narrow and strict application of the principle of fairness. Fairness is interpreted to mean one-man, one-vote and the same price per unit to everyone. Larger volume purchasers, especially truck load users, see it differently. Volume carries with it economies of scale. Unless the larger farmer participates in these economies, he's apt to drop out of the cooperative. Half of production currently comes from 5 percent of the farms, and the proportion coming from the largest farms is increasing. Large farmer patronage is necessary for the survival of our agricultural cooperatives. Without large farmer patronage, cooperative volume of business declines and becomes limited to small, typically part-time membership.

Cooperatives should not position themselves to serve only the part-time or retired farmers. To serve the large volume farmer, cooperatives must switch from charging the same price per unit to the same net margin per unit. This involves application of the concepts of price discounts and marketing premiums. Serving large and small farmers through the same cooperative also requires:

- New technical services adapted to the needs of each market segment
- Better market information
- Improved marketing methodology
- Integration
- Access to credit

## Wound: Loose Local-Regional Relationship

Outside of strict, centralized cooperatives, we find too loose a local-regional relationship. This loose relationship characterizes the problem of federated cooperatives. Federated regionals have little or no control over the locals. In many instances, the boards of directors of locals have condescended to put local managers on a supplemental pay arrangement based on sales. This arrangement discourages the locals from supporting regionals. Those locals also discourage members from wanting to do business through the regional. Because the board approves the pay incentive for the manager, it is at a loss to support and encourage farmers to commit to the regional cooperative.

One idea that deserves exploration is the possibility of local-regional profit sharing. Where the local, through its large volume and regular patronage, creates a higher regional margin, it should be able to capture that margin, just as large farmers should be able to capture the higher margins they generate.

Agricultural cooperatives in the United States must be systematized. Systemazation of agricultural cooperatives is really a search for centralization. How far can we centralize the federated cooperatives and still leave members with the feeling that their cooperative belongs to them? Where is the compromise between member loyalty and regional control? At what point in the organizational mixture can member loyalty and regional control co-exist? To achieve a centralized federated compromise is no easy task. It is very complex and requires much understanding and willingness to achieve. This achievement includes such things as: 1) creating a more formal relationship between locals and regionals than usually exists; 2) making locals a bigger partner in the total business; and 3) providing professional marketing services through a skilled marketing staff.

## Wound: "Rather Die Than Merge"

The majority of our agricultural cooperatives live by the "rather die than merge" philosophy. As the need for merging becomes manifest (that is, declining volume, railroad abandonment, depleted water supply, high energy costs, weak financial condition, increasing competition, etc.), cooperatives choose to dissipate their net worth rather than merge with one or more neighboring cooperatives. This is a deliberate choice of the board of directors, strongly supported by the wish of the general manager. Once a local cooperative decides to die rather than merge, its financial structure continues to weaken. The Bank for Cooperatives is maneuvered into making further (unwarranted) loans to prolong the death. Increasing financial stress strains relationships with regionals. To die rather than merge is a choice of a very selfish board of directors, and that is where the membership must place the blame. Too frequently, a board chooses this alternative with the hope of getting personal gains out of the cooperative's demise.

Members are more willing to accept mergers of cooperatives than either their boards of directors or managers. Leadership for local cooperative mergers rests with the membership and with the regionals. The forewarning of the need to merge must come either from the Bank of Cooperatives or from the regional cooperative. Neither has in place a good early warning system.

Cooperatives that fail to merge may be salvaged through acquisitions, but usually at far below book value.

## Wound: Locals Cannot Get Special Assistance

Local agricultural cooperatives in the United States need assistance in: 1) long-range planning; 2) financial analysis in planning; 3) cooperative education; and 4) mergers and consolidations. These four business areas are the most critical in the life of local cooperatives. In too many cooperatives, these are not recognized as needs by the boards of directors. Nonetheless, the need exists.

But who should provide the assistance? Most cooperatives recognize that this technical assistance cannot be obtained through the local manager, selected members of the board, or selected members of the cooperative. They must turn to outside sources for technical assistance. A recent survey in Texas indicated that the most popular source of long-range planning and financial planning assistance was the Bank of Cooperatives. This was followed by the regional cooperative, the Land Grant University, and, finally, private consultants. Having the regionals provide this technical assistance is part of the policy of making locals a full partner in the total business.

## Wound: Failure to Involve Members in Decision Making

In a recent Texas survey, only 19 percent of the members said that they had ever served on a committee of their cooperative. The same survey showed that, on the average, a cooperative member had 1 year of college education. So although cooperative members are capable of understanding what goes on in the cooperative, including board policy, cooperatives fail to genuinely involve members in decision making. Thus, a widening gap is developing between what members want, what management wants and what the board of directors wants. In some states, cooperatives must be content with what their general farm organization wants them to be.

Our findings indicate that members are more progressive and more willing to accept change than either the board of directors or manager. Failure to involve members in decision making is best demonstrated at the annual meetings of the cooperatives. Some annual meetings have developed into closed affairs. Some members have been asked to submit their questions in writing well in advance. Some cooperatives do not make financial reports available to the membership. There is no way that agricultural cooperatives can be progressive institutions if these practices continue.

Having members serve on the cooperative committees makes good sense. Through committee participation, members are made to feel a part of the cooperative. They are involved and have valuable inputs into the decision making process. These committees are usually chaired by a member of the board and committee decisions are submitted to the board of directors. These committees frequently have more time to work on a problem than the board, and can do a more thorough job of searching for facts applicable to issues. The advice of the committee shortens the time that the board of directors must spend in decision making. The decisions are also more sound.

## Wound: Neglected Research Thrust

Cooperatives traditionally are dependent upon government and university research for their many needs. That dependence is no longer adequate, if it ever was. The basis upon which universities and the government do research has changed. At one time, discovery of new life forms—such as new variety of seed—could not be patented. When a new disease-resistant iety was produced, it became part of the public domain. Cooperatives could exploit the discovery the same as Cargill. Then, through a series of congressional actions and court decisions, new life forms (as well as computer software) became patentable.

As a result, universities and the USDA now look for supporting partners in research—partners who have exclusive rights to their discoveries. Cooperatives have traditionally been strong in farm supplies. That strength could be seriously eroded by a lack of research ties with the universities. This is particularly true since it is generally accepted that agriculture is on the verge of a technological revolution based on discoveries that utilize genetic engineering and computers.

In retrospect, the 1990's will likely be referred to as the bio- and information technology era in agriculture, just as the 1950's was the mechanical era and the 1970's the chemical era. Unless cooperatives become involved in the development of bio- and information technology, they will merely be distributors of products produced by Monsanto, Genentech, Neogen and other biotech innovators. These firms may not even need distributors. They may go directly to farmers in integrated systems that bypass cooperatives.

For cooperatives to become truly competitive they must develop and exploit scientific breakthrough capability. To do this, major regional cooperatives will need to engage in increased biotechnical and economic marketing research themselves, and in conjunction with universities. The usefulness and survival of cooperatives will depend heavily on how they generate and adopt these new biotechnical products and their efficiency in making them available to members, thereby capturing the benefits of new discoveries in the bio- and information technology era. Members, in turn, would become increasingly more dependent upon their cooperatives for the operations of their farms and ranches.

Cooperatives have failed to establish research arms largely because of management's failure to understand: 1) its research need; 2) how to manage the research function; 3) how to acquire research talent; and 4) how to integrate research developments into production, marketing and management decisions. Cooperatives have need for research. They can develop it on their own, as Farmland Industries is doing, or they can develop it in partnership with other cooperatives. If a partnership, it would be a Research Agency in Common (RAC). Such an agency could pool the research staff of several cooperatives and channel results to each. Each cooperative would benefit from all the research done.

A RAC would be able to employ better trained people, allow some specialization and provide full employment with better results.

## Wound: Failure to Remove Inactive Members

The membership lists of many cooperatives include members who have been dead for many years or are no longer active patrons of the cooperative. Failure to purge the names of inactive members from the membership roster means the cooperative has failed to retrieve the common stock. Continuing the past members' voting rights constitutes an unnecessary risk to the cooperative.

In a 1984 survey of Texas cooperative members, 20 percent of the returned questionnaires were submitted by past members or heirs of deceased members, or by farmers who disclaimed being members of a cooperative. The sample was drawn from cooperatives' membership rosters. Of this 20 percent, the largest number were retired from farming, the next largest group were heirs of a deceased member, and the smallest number were those who claimed that they were not members of the cooperative.

It is a good management practice for the board of directors to review the member patronage each year, notify those members who have failed to patronize the cooperative during the last 2 years, and give them an opportunity to explain the reason for non-patronage. If the reason is insufficient, the member should be dropped from the membership list and the member's common stock immediately redeemed.

## Wound: Failure to Fight for Marketing Orders

At the beginning of the Reagan Administration, studies were made of the economic impact of regulations imposed under federal marketing orders and agreements. This was followed by widespread movement to discourage use of federal marketing orders, especially as supply allocators. While this was going on, individual producers and cooperatives attempted to fight the government's anti-marketing order program. At that time all cooperatives, regardless of their commodity or regional orientation, should have banded together and fought the government for its stance on marketing orders. Cooperatives must take stronger stands on public issues relating to agriculture, commodities, and cooperatives, and they must be unified in their actions. Cooperatives are in industries regulated by marketing orders. They must develop a game plan to keep them.

## Wound: Non-revolving of Board Members

There is a tendency within American agricultural cooperatives to keep board members in office, even after their usefulness as board members ceases. Board service of 25, 30 and 35 consecutive years has been common. Three questions emerge when members serve a long period of time on the board: 1) How useful are they as decision makers? 2) How much control do they exercise within the cooperative? and 3) How dominant is the manager? More often than not, long board tenures can be associated with management domination within the cooperative. Cooperative managers do not like to see board terms limited. Cooperative members, on the other hand, want to limit the term that a board member may serve. Their preference is to limit board tenure to two consecutive 3-year terms (6 years). Because of the need for experience, three or four consecutive 3-year terms are preferable (9 to 12 years). At that point, a board member should be required to get off the board for at least 2 years, then run for re-election.

Don't rotate board members for the sake of rotation. Provide the occasion for putting a person off the board without embarrassing him or the membership. Expand the base of board participation by allowing younger members to serve.

## Wound: Board Does Not Know Board Policy

In a typical cooperative, not one board member knows all the current policies that have been perpetuated and enacted by the present and previous boards of that cooperative. Last summer approximately 150 board members from throughout the United States were together in one room. They were asked how many of them knew all of the policies of their cooperative? One hand appeared. It turned out to be that of a woman. When asked how she knew, she said, "Oh, I just recently transferred all policies of the cooperative into a board policy handbook."

In the absence of a board policy handbook, there is a strong tendency to rely on the memory of one member of the board or, worse yet, the manager, as to policy on any specific issue. When an issue is raised, frequently one of the older members tries to persuade the rest of the board by bringing forth his recollection of the policy. In most cases, that board member is incorrect. There should be a board policy handbook, and it should be updated frequently. Furthermore, there must be a policy and performance review annually. Boards must evaluate decisions made and programs implemented.

A copy of a board policy handbook can be ordered from the Texas Cooperative Agricultural Council. Each board member and the chief executive officer should have one.

## Wound: Members Do Not Know What's Going On

There are four areas in a cooperative where members frequently do not know what's going on.

The first area is pricing policy. Most cooperative members believe that their cooperative's pricing policy is to match the competition. The exact pricing policy that the board or management uses is unknown. This is especially true regarding volume discounts and truck load rates. The prevailing philosophy is to achieve the principle of fairness by pricing all products to everyone at the same price per unit. Only 36 percent of Texas agricultural cooperatives differentially price. The goal in cooperative pricing should be to move from the same price per unit principle to the same margin per unit principle.

The second area is that members do not know the cooperative's credit policy. The easy way to overcome this is to print the credit policy on each invoice. This discourages bringing overdue accounts into court for settlement.

The third area where members do not know what's going on is in the area of redemption policy. They do not know what redemption plan the board is following. Likewise, they are unfamiliar with the age of the oldest outstanding stock. They are not familiar with the board's intention to redeem old stock. Too often it is a moot question.

The fourth unknown area is operation policy, especially pertaining to what services are available and their costs.

## Wound: Weak Stands on National Agricultural and Food Policies

Generally, the desires of members and the desires of cooperatives in the area of national farm programs are diametrically opposed. Members' desires usually prevail. Members want reduced production and high commodity loan rates. Sharp curtailments in production, however, result in drastic cutbacks in input requirements for members, and shrink the volume of output ndled through the cooperative. Members, likewise, want high loan rates which price commodities out of the world market. Both production controls and high loan rates result in reduced revenues to cooperatives.

Generally, the desires of cooperative members are reflected through general and commodity organizations rather than through cooperatives. Having strong cooperative organizations speaking on national agricultural and food policies can be an advantage to cooperatives as well as to agricultural producers. This stems from the fact that cooperatives are experienced in the business. They know business problems. They have a more realistic view of the impact of farm programs on producers, cooperatives and the agribusiness community.

## Wound: Little or No Marketing Expertise

While a few of our cooperatives have marketing staffs of outstanding expertise, most of them are operating with little or no marketing expertise. Too often our cooperative managers come from a production background and do not understand marketing or marketing management. Sometimes this is true even when the members are committed to the cooperative with the marketing agreement. An outstanding example of this was in the early Promark experience.

## Closing Remarks

These wounds are rarely isolated. Many are associated with other wounds and some exist because of other wounds.

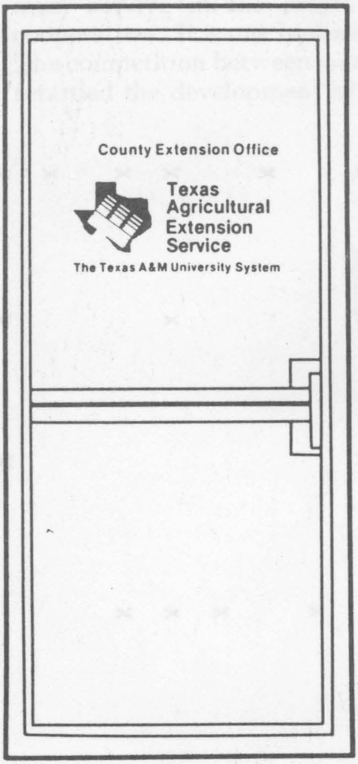
They all weaken the cooperative system (Table 1). Many of these wounds strengthen the level of management control at the expense of either member or board control. Many increase cooperatives' unit cost of operation, and, in the process, cost cooperatives the business of the large farmers.

Family farmers are in trouble. Their survival is dependent on a strong cooperative system. It is only through cooperatives that family farmers can exercise market power. Anything that weakens the cooperative system weakens family farmers. However, some wounds are more critical to family farmers than others. The most critical are those that relate to farmers' understanding of cooperatives, their involvement in cooperatives' decisions and their ability to realize the advantages of integration.

This is a formidable list of problems and needs to be reduced. Cooperatives must survive in the future because all farmers are better off with cooperatives. It is one business form agribusiness firms must reckon with. The competition between cooperatives and proprietary firms has probably retarded the development of harsher business alternatives.

**Table 1. Primary Impacts of Self-Inflicted Wounds on Cooperatives.**

| Wound | Reduces member control | Reduces board control | Strengthens management control | Increases cost of operation | Loses large farmer business | Reduces family farmer control of agriculture | Weakens financial structure | Weakens cooperative system |
|---|---|---|---|---|---|---|---|---|
| 1. Separation of Ownership and Patronage | X | | X | | | | | X |
| 2. Permanent Capital | X | | X | | | | | X |
| 3. High Equity Leveraging | | | | | | | X | X |
| 4. Mediocre Management | | | | X | X | | | X |
| 5. Increasing Cooperative-to-Cooperative Competition | | | | X | | | X | X |
| 6. Too Little Cooperative Education | X | X | X | | X | X | | X |
| 7. Losing the Larger Farmer | | | X | X | X | | X | X |
| 8. Loose Local-Regional Relationship | | | X | X | X | X | | X |
| 9. Rather Die than Merge | X | | X | X | X | | X | X |
| 10. Failure to Involve Members in Decision Making | X | X | X | | | X | | X |
| 11. Neglected Research Thrust | | | | X | X | X | | X |
| 12. Failure to Remove Inactive Members | X | | X | | | | | X |
| 13. Failure to Fight for Marketing Orders | | | | | | X | | X |
| 14. Non-Revolving of Board Members | X | | X | | | | | X |
| 15. Board Does Not Know Board Policy | | X | X | | X | X | | X |
| 16. Members Do Not Know What's Going On | X | | X | | | X | | X |
| 17. Weak Stands on National Agriculture and Food Policies | | | | | | X | | X |
| 18. Little or No Marketing Expertise | | | | X | X | X | | X |

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